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C O N F I D E N T I A L SECTION 01 OF 02 BUDAPEST 000320

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SUBJECT: MOL SHAREHOLDER'S MEETING: ALL QUIET ON THE SURGUT
FRONT

REF: BUDAPEST 265

¶1. (SBU) Hungarian oil and gas giant MOL appears to have successfully barred the door, at least for the time being, against a possible takeover attempt by Russia's Surgutneftegaz (Surgut) (reftel). Econoff attended MOL's Annual General Meeting (AGM) on April 23, which, in light of widely-perceived Russian designs on the Hungarian energy champion and apart from a significant media presence, was notable only for the calm, orderly conduct of business.

¶2. (SBU) As has been widely reported in the local press, MOL managed to bar Surgut from attending the meeting based on a technicality: MOL had not registered Surgut in its shareholder register by the April 14 deadline due to some delays in the Hungarian Energy Office's certification of Surgut's share purchase. Although excluded from a seat at the table, Surgut chairman Vladimir Bogdanov published an open letter to MOL shareholders in a Hungarian business daily to voice Surgut's good intentions for a mutually-beneficial relationship with MOL and its disappointment over MOL management's refusal to enter a dialogue toward that end.

¶3. (SBU) With the absence of Surgut's 21.2 percent ownership stake, MOL shareholders achieved a quorum on the second try with just over 44 percent of voting shares represented. In a striking show of solidarity, MOL shareholders passed with an overwhelming 99 percent majority a number of proposals aimed at preventing "creeping control" of the company, based on "present changes in the shareholder structure"--a thinly veiled reference to Surgut's recent unwelcome purchase of its MOL stake. The hostile takeover defense measures generally strengthen the Board of Directors' competence over certain strategic decisions at the expense of the shareholders, while granting the GoH, as the sole holder of the company's "B" share, additional authority to veto shareholder efforts to overturn the Board. These include the following:

--enabling the Board of Directors to make decisions without approval by the shareholders' AGM regarding public purchase offers for treasury shares and changes in the company's capital structure, such as increases in share capital, issuance of convertible bonds, and conversion of shares;

--nearly doubling the amount of additional share capital the Board is authorized to raise to 30 billion forint (approximately \$134 million) over the next five years;

--lowering the threshold for approving an increase in share capital and convertible bonds from a three-fourths majority

to a simple majority of shareholders;

--raising the threshold for dismissing members of the Board of Directors from a simple majority to a three-fourths majority of shareholders;

--granting "B" shareholders a veto over certain proposals accepted by shareholders but not by the Board, including the election and dismissal of Board members, Supervisory Board members and auditors, decisions on dividends, and certain amendments to the Articles of Association;

--limiting the ability of the shareholders' AGM to dismiss Board members to a maximum of 1 (previously 3) during a three (previously six) month period and canceling a provision that would have removed such restrictions if an owner obtained a 33 percent stake in the company; and

--a requirement, apparently in an effort to shed light on Surgut's shady ownership structure, that shareholders with stakes exceeding 2 percent disclose their MOL ownership as well as the identity of the ultimate beneficial owner(s) exercising control over the shares (Note: This measure passed with only an 86.3 percent majority. End note.).

¶4. (SBU) The shareholders also approved several measures to address EU objections to privileges that were previously accorded to the GoH as a shareholder to bolster its ability to defend MOL from takeover. Specifically, the AGM removed a provision that extended special voting preferences to the holder of the "B" series share only as long as it was held by

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the GoH. The rights would now be transferable if the share were sold. The shareholders also removed a provision that exempted the GoH from the 10 percent voting cap applied to all other shareholders.

¶5. (C) Comment: These measures, which consolidate power in the Board of Directors, are likely to face criticism from international financial investors who argue that tightened Board control over the company's share structure will be detrimental to MOL's stock price. The consensus in Hungary, however, seems to be that these moves were necessary to prevent the loss of a strategic national asset. Indeed, many are breathing sighs of relief following the success in erecting these defenses. KBC Securities analyst Peter Tordai believes Surgut's (or any other company's) chances to take over MOL are now "practically zero." We remain watchful, however, for signs that Surgut (or other Russian firms) might seek more than a "mutually beneficial partnership" with MOL and, having identified MOL as a key target, that they might begin employing less traditional means to achieve their objectives. End comment.
Levine